

Techcomp

M&A opportunities ahead

To summarize...

- The analytical and laboratory instruments market in China is expected to become a US\$3.5b market by 2014 (09-14 CAGR 8.3%)
- The market may potentially grow at a greater pace given China's increasing focus on food health and safety quality, improvements in the manufacturing quality control and environmental regulations
- Techcomp is a leading company in this segment since establishing in 1991. It has been growing at a 20% CAGR from 2002 and 2010 and is now exploring ways to accelerate this growth going forward
- Company already has a footprint in the European market and is looking at opportunities for further strategic acquisitions in the US (to establish footprint) or Europe (to strengthen presence)

Valuation: Company is trading at historical 6.9x FY12/10A P/E.

Company profile: Founded in 1991, Techcomp is a manufacturer and distributor of analytical instruments, life science equipment and laboratory instruments. The company started by distributing foreign brands of analytical and laboratory instruments and over time moved into OEM and eventually developed its own brands. Techcomp now manufactures over 20 product series under its own brands. It has facilities in Shanghai, Romania, France (Lyon) and Switzerland (Zurich).

The company has 14 trading subsidiaries in China as well as subsidiaries in Hong Kong, Macau, Singapore, India, France, Swiss, UK and Romania that makes up its distribution network across Europe and Asia. Globally, the company has 220 sales and marketing personnel and 90 after-sales service staff. It also operates application labs in both Beijing and Shanghai. China revenues typically account for around 70-75% of revenues. 70-80% of the company's sales are direct sales with the remaining sold through 3rd party distributors.

Table 1. Product

Products	Est % of revenue contribution	Ranking of higher Margin to be contributed
Electron microscope	25%	5
Spectrometer	13%	2
Electronic balance	11%	4
Chromatograph	9%	1
Centrifuge	8%	3

Source: SBI E2-Capital

Core technology: Management claims that the company owns 4 core pieces of technology, including: spectroscopy design, gas chromatography, electronic balance (acquired) and precise temperature control (acquired).

Market size: According to Strategic Directions International (SDI), the total worldwide market size for analytical instruments is expected to reach US\$48.3b by 2014 (08-14 CAGR 5.4%) with China market size reaching US\$3.5b by the same period (09-15 CAGR 8.3%).

Ticker	1298 HK
Rating	Not Rated
Price (HK\$)	2.38
Target Price (HK\$)	n.a
12m Price Range (HK\$)	2.37-2.48
Market cap. (US\$m)	70.9
Daily t/o (US\$m)	n.a
Free float (%)	40.7

Financial summary

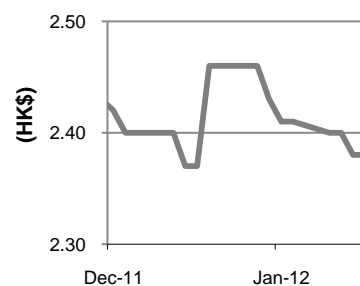
Year to Dec	08A	09A	10A
Turnover (US\$m)	81	105	127
Net Profit (US\$m)	3.4	7.8	10.6
EPS (US\$)	0.013	0.032	0.045
P/E (x)	24.3	9.5	6.9
P/B (x)	1.9	1.5	1.2
EV/EBITDA (x)	20.3	8.6	6.6
Yield (%)	-	-	-
ROE (%)	8%	17%	19%
ROCE (%)	6%	13%	14%
N. Gear. (%)	Net Cash	2%	9%

Source: SBI E2-Capital

	11F	12F	13F
Consensus EPS (HK\$)	-	-	-
Previous earnings (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	-	-	-
Actual price changes (%)	-	-	-



Source: Bloomberg

Research Team

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Customer base: Techcomp's custom base comprises 4 main groups: 1) university & research institutes, 2) certification and standards testing, 3) quality assurance and routine analysis and 4) high-tech and manufacturing R&D. Management estimates that around 65% of sales are made to government related customers or government indirectly subsidised customers. Its customers cover a diverse range of industries, from food and beverage, automobile, research institutes, biotechnology, electronics and hospitals amongst others.

Key Management:

Richard Lo (Chairman & CEO). Hong Kong native, Richard founded the company in 1991. Richard has over 20 years of experiences in the life science research and equipment industry. He received both his undergraduate degree and MBA from Chinese University of Hong Kong

XU Guoping (Executive Director). Guoping formerly worked at Shanghai Magnetic and Steel Limited between 1968 and 1979 and from 1979 to 1994 at Shanghai Analytical Instrument Factory (an SOE). At Techcomp, Guoping is the Managing Director of Techcomp (Shanghai) Manufacturing, responsible for the overall manufacturing business of the company.

Table 2. Shareholding

Shareholders	%
Richard Lo (Chairman & CEO)	48.37
Central Huijin Investment	29.00
Kabouter Management	10.92

Source: SBI E2-Capital

Brands:

- Self-owned brands: Techcomp, Dynamica, Foilabo (acquired in 2009), Precisa (acquired in 2010)
- Distribution brands: Hitachi High-Technologies, Hitachi Koki, Horiba Jobin Yvon, Nuaire, TOMY Digital Biology etc

Others

- Auditor. Deloitte
- Capital market history. Techcomp was listed on the SGX in July 2004 and dual listed on the HKEx Main Board by way of introduction (no fund raising) in Dec 2011.
- Cash position. As at 1H FY12/10A, company had a net debt position of US\$15.3m (cash on hand: US\$US\$10.7m) though we note that typically, the company's cash position is higher at year end periods given business seasonality

Table 3. Key financial ratio

Y/E Dec (US\$m)	08A	09A	10A	1H 10A	1H 11A
Manufacturing	13.6	19.9	39.8	15.1	20.1
Distribution	67.4	84.9	87.3	36.1	40.7
Revenue	81	104.8	127.1	51.2	60.8
Gross profit	24.2	29.9	41.3	15	18.6
Manufacturing	2.1	3.6	3.5	0.3	0.4
Distribution	0.9	3.9	6.8	1.3	1.1
Segment profit	3	7.6	10.3	1.6	1.5
Net profit	3	7.5	10.2	1.4	0.5
YoY Chg (%)	08A	09A	10A	1H 10A	1H 11A
Revenue		46.10%	99.80%		33.10%
Manufacturing		25.90%	2.90%		12.70%
Distribution		29.30%	21.30%		18.80%
Gross profit		23.50%	38.40%		23.40%
Net profit		148.80%	36.49%		-64.80%
Margins (%)	08A	09A	10A	1H 10A	1H 11A
Gross margin	29.80%	28.50%	32.50%	29.40%	30.50%
Segment margin	15.30%	18.30%	8.80%	1.90%	2.20%
Manufacturing	1.30%	4.60%	7.80%	3.60%	2.70%
Distribution	3.70%	7.20%	8.10%	3.10%	2.50%

Source: SBI E2-Capital

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BUY : absolute upside of >10% over the next six months

HOLD : absolute return of -10% to +10% over the next six months

SELL : absolute downside of >10% over the next six months

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